

Township of Spencer
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Township of Spencer, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Spencer, Michigan, as of March 31, 2008, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Spencer, Michigan, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, as listed in the contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township of Spencer, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

July, 17 2008



1958-2008

BASIC FINANCIAL STATEMENTS

Township of Spencer
STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 668,628
Receivables	<u>69,033</u>
Total current assets	<u>737,661</u>
Noncurrent assets:	
Capital assets not being depreciated	26,000
Capital assets, net of accumulated depreciation	<u>1,116,941</u>
Total noncurrent assets	<u>1,142,941</u>
Total assets	<u>1,880,602</u>
LIABILITIES	
Current liabilities:	
Accounts payable	14,807
Customer deposits	5,097
Note payable	<u>22,357</u>
Total current liabilities	42,261
Noncurrent liabilities - note payable	<u>4,854</u>
Total liabilities	<u>47,115</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,115,730
Restricted for:	
Public safety	165,897
Public works	63,276
Unrestricted	<u>488,584</u>
Total net assets	<u>\$ 1,833,487</u>

See notes to financial statements

Township of Spencer
STATEMENT OF ACTIVITIES
Year ended March 31, 2008

	<u>Program revenues</u>				<u>Net (expenses) revenues and changes in net assets</u>
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>
Functions/Programs					
Governmental activities:					
Legislative	\$ 12,000	\$ -	\$ -	\$ -	(12,000)
General government	301,380	50,059	-	-	(251,321)
Public safety	194,841	42,543	-	-	(152,298)
Public works	59,426	28,066	6,212	-	(25,148)
Community and economic development	20,699	-	-	-	(20,699)
Interest on long-term debt	<u>3,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,578)</u>
Total governmental activities	<u>\$591,924</u>	<u>\$ 120,668</u>	<u>\$ 6,212</u>	<u>\$ -</u>	<u>(465,044)</u>
General revenues:					
Property taxes					224,353
State shared revenue					248,072
Interest income					38,217
Franchise fees					3,513
Other					<u>4,725</u>
Total general revenues					<u>518,880</u>
Change in net assets					53,836
Net assets - beginning					<u>1,779,651</u>
Net assets - ending					<u>\$ 1,833,487</u>

See notes to financial statements

Township of Spencer
BALANCE SHEET - governmental funds
March 31, 2008

	Major funds		Total governmental funds
	General	Fire	
ASSETS			
Cash	\$ 505,444	\$ 163,184	\$ 668,628
Receivables	55,842	13,191	69,033
Due from other funds	1,381	-	1,381
Total assets	<u>\$ 562,667</u>	<u>\$ 176,375</u>	<u>\$ 739,042</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 5,710	\$ 9,097	\$ 14,807
Due to other funds	-	1,381	1,381
Customer deposits	5,097	-	5,097
Total liabilities	<u>10,807</u>	<u>10,478</u>	<u>21,285</u>
Fund balances:			
Reserved for public works	63,276	-	63,276
Unreserved	488,584	165,897	654,481
Total fund balances	<u>551,860</u>	<u>165,897</u>	<u>717,757</u>
Total liabilities and fund balances	<u>\$ 562,667</u>	<u>\$ 176,375</u>	<u>\$ 739,042</u>
Total fund balances			\$ 717,757
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.			1,142,941
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.			(27,211)
Net assets of <i>governmental activities</i>			<u>\$ 1,833,487</u>

See notes to financial statements

Township of Spencer**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2008

	Major funds		Total governmental funds
	General	Fire	
REVENUES			
Property taxes	\$ 149,456	\$ 117,162	\$ 266,618
Licenses and permits	36,681	-	36,681
State grants	254,284	-	254,284
Charges for services	3,594	9,375	12,969
Interest and rentals	34,321	8,096	42,417
Other:			
Special assessments	28,066	-	28,066
Miscellaneous	1,914	2,811	4,725
Total revenues	<u>508,316</u>	<u>137,444</u>	<u>645,760</u>
EXPENDITURES			
Legislative	12,000	-	12,000
General government	271,018	-	271,018
Public safety	31,042	101,017	132,059
Public works	151,731	-	151,731
Community and economic development	20,699	-	20,699
Capital outlay	7,796	19,489	27,285
Debt service:			
Principal	-	50,048	50,048
Interest	-	3,578	3,578
Total expenditures	<u>494,286</u>	<u>174,132</u>	<u>668,418</u>
NET CHANGES IN FUND BALANCES	14,030	(36,688)	(22,658)
FUND BALANCES - BEGINNING	<u>537,830</u>	<u>202,585</u>	<u>740,415</u>
FUND BALANCES - ENDING	<u>\$ 551,860</u>	<u>\$ 165,897</u>	<u>\$ 717,757</u>

See notes to financial statements

Township of Spencer

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - *governmental funds* (Continued)**

Year ended March 31, 2008

	<i>Total governmental funds</i>
	<hr/>
Net change in fund balances - total governmental funds	\$ (22,658)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Capital assets:	
Assets acquired	94,850
Provision for depreciation	(68,404)
Long-term debt - principal repayment	<hr/> 50,048
Change in net assets of <i>governmental activities</i>	<hr/> \$ 53,836

See notes to financial statements

Township of Spencer
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Spencer, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

Township of Spencer
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Fund accounts for the proceeds of specific revenue sources that are legally restricted for expenditures for public safety purposes. Revenues are primarily derived from property taxes.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., shared road costs), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Equipment	5 - 20 years
Shared road costs	40 years

Township of Spencer
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and activity. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The Township had the following significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire	Capital outlay	\$ 11,620	\$ 19,489	\$ (7,869)

NOTE 3 - CASH:

Deposits with financial institutions:

The cash balances of the Township's governmental activities, which consist entirely of deposits with financial institutions, amount to \$668,628 at year end. Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of March 31, 2008, \$479,416 of the Township's bank balances of \$679,416 was exposed to custodial credit risk because it was uninsured.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Township of Spencer
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables, as of year end, for the Township's individual major funds are as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Special assessments</u>	<u>Inter- governmental</u>	<u>Accounts</u>	<u>Total</u>
General	\$ 13,111	\$ 2,940	\$ 39,291	\$ 500	\$ 55,842
Fire	<u>11,316</u>	<u>-</u>	<u>-</u>	<u>1,875</u>	<u>13,191</u>
Totals	<u>\$ 24,427</u>	<u>\$ 2,940</u>	<u>\$ 39,291</u>	<u>\$ 2,375</u>	<u>\$ 69,033</u>

All receivables are current and are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 26,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,000</u>
Capital assets being depreciated:				
Buildings and improvements	644,308	-	-	644,308
Shared road costs	250,190	92,305	-	342,495
Equipment	<u>645,999</u>	<u>2,545</u>	<u>-</u>	<u>648,544</u>
Subtotal	<u>1,540,497</u>	<u>94,850</u>	<u>-</u>	<u>1,635,347</u>
Less accumulated depreciation for:				
Buildings and improvements	(127,286)	(12,886)	-	(140,172)
Shared road costs	(2,117)	(7,024)	-	(9,141)
Equipment	<u>(320,599)</u>	<u>(48,494)</u>	<u>-</u>	<u>(369,093)</u>
Subtotal	<u>(450,002)</u>	<u>(68,404)</u>	<u>-</u>	<u>(518,406)</u>
Total capital assets being depreciated, net	<u>1,090,495</u>	<u>26,446</u>	<u>-</u>	<u>1,116,941</u>
Governmental activities capital assets, net	<u>\$ 1,116,495</u>	<u>\$ 26,446</u>	<u>\$ -</u>	<u>\$ 1,142,941</u>

Township of Spencer
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 22,565
Public safety	<u>45,839</u>
Total	<u>\$ 68,404</u>

NOTE 6 - LONG-TERM DEBT:

At March 31, 2008, long-term debt is comprised of the following individual issue:

Governmental activities:	
\$108,874, 2005 installment purchase agreement with Chase Equipment Leasing, Inc. - payable in monthly installments of \$2,052, bearing interest at 4.95% per annum, through August 2010	
	<u>\$ 27,211</u>

Long-term debt activity for the year ended March 31, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Installment purchase agreement	\$ 77,259	\$ -	\$ (50,048)	\$ 27,211	\$ 22,357

At March 31, 2008, debt service requirements were as follows:

<u>Year ended March 31,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 22,357	\$ 2,268
2009	<u>4,854</u>	<u>269</u>
Totals	<u>\$ 27,211</u>	<u>\$ 2,537</u>

Township of Spencer
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides retirement benefits for all of its eligible employees through a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment and may contribute to the plan. Contributions range from \$250 to \$2,500 per employee, depending upon annual compensation. The Township's contributions are fully vested immediately. All costs associated with the plan are paid currently.

The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. Accordingly, plan assets and changes therein are not reported in these financial statements.

The Township made the required contributions of \$23,828 for the year ended March 31, 2008.

NOTE 8 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2008, is as follows:

Revenues	\$ 29,891
Expenses	<u>(31,042)</u>
Deficiency of revenues over expenses	\$ <u>(1,151)</u>

NOTE 10 - RESTRICTED NET ASSETS:

Net assets of the governmental activities, as of March 31, 2008, are restricted for the following purposes:

Public safety - fire protection	\$ 165,897
Public works - weed control	<u>63,276</u>
Total restricted net assets	\$ <u>229,173</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Spencer
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 140,700	\$ 140,700	\$ 149,456	\$ 8,756
Licenses and permits	85,000	85,000	36,681	(48,319)
State grants	291,000	291,000	254,284	(36,716)
Charges for services	3,500	3,500	3,594	94
Interest and rentals	23,200	23,200	34,321	11,121
Other:				
Special assessments	26,000	26,000	28,066	2,066
Miscellaneous	2,000	2,000	1,914	(86)
Total revenues	<u>571,400</u>	<u>571,400</u>	<u>508,316</u>	<u>(63,084)</u>
EXPENDITURES				
Legislative	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
General government:				
Supervisor	25,500	25,500	25,000	500
Elections	7,500	7,500	4,857	2,643
Assessor	25,500	25,500	26,195	(695)
Clerk	37,500	37,500	37,042	458
Board of review	1,620	1,620	1,619	1
Treasurer	34,500	34,500	32,092	2,408
Hall and grounds	59,090	59,090	54,357	4,733
Cemetery	6,000	6,000	5,878	122
Administration	125,470	125,470	83,978	41,492
Total general government	<u>322,680</u>	<u>322,680</u>	<u>271,018</u>	<u>51,662</u>
Public safety - building inspections	<u>61,950</u>	<u>61,950</u>	<u>31,042</u>	<u>30,908</u>
Public works:				
Road improvements	150,000	150,000	129,439	20,561
Weed control	26,000	26,000	22,292	3,708
Total public works	<u>176,000</u>	<u>176,000</u>	<u>151,731</u>	<u>24,269</u>

Township of Spencer**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 23,020</u>	<u>\$ 23,020</u>	<u>\$ 20,699</u>	<u>\$ 2,321</u>
Capital outlay	<u>9,500</u>	<u>9,500</u>	<u>7,796</u>	<u>1,704</u>
Total expenditures	<u>605,150</u>	<u>605,150</u>	<u>494,286</u>	<u>110,864</u>
NET CHANGE IN FUND BALANCES	<u>(33,750)</u>	<u>(33,750)</u>	<u>14,030</u>	<u>47,780</u>
FUND BALANCES - BEGINNING	<u>537,830</u>	<u>537,830</u>	<u>537,830</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 504,080</u>	<u>\$ 504,080</u>	<u>\$ 551,860</u>	<u>\$ 47,780</u>

Township of Spencer
BUDGETARY COMPARISON SCHEDULE - Fire Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 165,000	\$ 165,000	\$ 117,162	\$ (47,838)
Charges for services	7,500	7,500	9,375	1,875
Interest	3,000	3,000	8,096	5,096
Other	3,200	3,200	2,811	(389)
Total revenues	<u>178,700</u>	<u>178,700</u>	<u>137,444</u>	<u>(41,256)</u>
EXPENDITURES				
Public safety	113,450	113,450	101,017	12,433
Capital outlay	11,620	11,620	19,489	(7,869)
Debt service:				
Principal	50,052	50,052	50,048	4
Interest	3,578	3,578	3,578	-
Total expenditures	<u>178,700</u>	<u>178,700</u>	<u>174,132</u>	<u>4,568</u>
NET CHANGE IN FUND BALANCES	-	-	(36,688)	(36,688)
FUND BALANCES - BEGINNING	<u>202,585</u>	<u>202,585</u>	<u>202,585</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 202,585</u>	<u>\$ 202,585</u>	<u>\$ 165,897</u>	<u>\$ (36,688)</u>

July 17, 2008

To the Board of Trustees
Township of Spencer

We have audited the financial statements of the governmental activities and each major fund of the Township of Spencer for the year ended March 31, 2008, and have issued our report thereon dated July 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 3, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Township of Spencer are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by Township of Spencer during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



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The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended March 31, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Spencer's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Township of Spencer as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Spencer's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Township has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Township has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Spencer and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.